

Surety Bond Guaranty Program

PURPOSE: SBA's **Surety Bond Guarantee Program** (or SBGP) was developed to assist small businesses seeking contracting opportunities in which a performance or bid bond is required. The program is administered through a private-public partnership between the SBA and the surety industry. SBA guarantees bonds issued by surety companies for construction, service, and supply contracts and reimburses the sureties a percentage of the losses sustained if the contractor defaults. SBA's guarantee provides the incentive necessary for sureties to issue bonds to contractors who could not otherwise compete in the contracting industry. In FY2004, SBA guaranteed 48 bonds for \$13 million in Arizona.

WHAT ARE THE PAP AND PSBP PROGRAMS? SBGP consists of two programs: **Prior Approval Program (PAP)** and the **Preferred Surety Bond Program (PSBP)**. The PAP guarantees up to 90% of a surety's loss. Participating sureties must obtain SBA's approval for each bond guarantee issued. Under the PSBP, sureties receive a 70% guarantee and are empowered to issue, service and monitor bonds without SBA's prior approval. These programs are a major factor in the surety reinsurance and contracting industries and are recognized as a primary stabilizing influence by those industries. Contracts in HUBZones get SBA's highest rate – 90 %.

WHY? The purpose of SBGP is to assist qualified small contractors to obtain bid, performance, payment and ancillary bonds that would otherwise be unavailable to obtain them without the SBA guarantee. This enables surety companies to reach more small businesses and protect the tax payers' dollars investment.

HOW MUCH? SBA can guarantee bonds for contracts up to **\$2 million**, covering bid, performance and payment bonds for small and emerging contractors who cannot obtain surety bonds through regular commercial channels. SBA's guarantee gives sureties an incentive to provide bonding for eligible contractors, and thereby strengthens a contractor's ability to obtain bonding and greater access to contracting opportunities. A surety guarantee, an agreement between a surety and the SBA, provides that SBA will assume a predetermined percentage of loss in the event the contractor should breach the terms of the contract.

DEFINITIONS AND PARTIES TO A BOND: A surety bond is a three-party instrument between a surety, the contractor and the project owner. The agreement binds the contractor to comply with the terms and conditions of a contract. If the contractor is unable to successfully perform the contract, the surety assumes the contractor's responsibilities and ensures that the project is completed.

The parties to a Bond include:

- Oblige – is the project owner (beneficiary) of the bond.
- Principal – is the contractor who is responsible to perform the contract for the obligee or pay monetary damages.
- Surety – is the party who joins with the contractor and guarantees the obligee that the contractor will perform the contract.
- Guarantor – is SBA and the party that guarantees to the surety, the contractor's performance under the contract and agrees to reimburse the surety for losses and expenses paid if the contractor defaults or fails to pay subs and suppliers on the project

TYPES OF BONDS AVAILABLE:

1. **Bid Bond** guarantees that the bidder on a contract will enter into the contract and furnish the required payment and performance bonds.
2. **Payment Bond** guarantees payment from the contractor to persons who furnish labor, materials, equipment and/or supplies for use in the performance of the contract.
3. **Performance Bond** guarantees that the contractor will perform the contract in accordance with its terms.
4. **Ancillary Bonds** which are incidental and essential to the performance of the contract.

ELIGIBILITY: A small business (contractor) applying for an SBA bond guarantee must qualify as a small business, in addition to meeting the surety's bonding qualifications. Businesses must meet SBA's size eligibility standards (except construction) – see <http://www.sba.gov/size/> for more information. Businesses in the construction and service industries are eligible if their average annual receipts, including those of their affiliates, for the last three fiscal years do not exceed \$6 million. Please call our office at (602) 745-7220 for questions dealing with size standard eligibility for contracting or surety bonds.

HOW DO YOU APPLY and HOW LONG? Small businesses should apply for a specific bond with an agent or surety company of their choice, providing background, credit and financial information required by the surety company and the SBA. An agent is an individual who has power of attorney to issue bonds on behalf of a surety. Many agents represent multiple sureties. We suggest you review those listed in the Yellow Pages. After shopping for an agent, you must complete specific surety forms, which are available from participating surety agents. A list of a few participating agents located in Arizona are provided below. Others may be available including out-of-state companies. Most bonds can be processed by SBA in 5 to 14 days.

WHAT FORMS DO I NEED TO SUBMIT? (Available at <http://www.sba.gov/OSG/osgforms.html>)

- SBA Form 994: Application for Surety Bond Guarantee Assistance
- SBA Form 912: Statement of Personal History
- SBA Form 994F: Schedule of Uncompleted Work on Hand
- SBA Form 1624: Certification Regarding Debarment and Suspension
- SBA Form 1261: Statement of Laws and Executive Orders

RISK AND CREDIT FACTORS: Small businesses in high risk industries such as construction can have difficulty in obtaining a bond even if they are an experienced, well financed company. Many can encounter difficulty and unexpected situations which can cause financial losses due to disputes, claims, liens or default can arise. Construction bonds are known to be among the most hazardous of all bonding and, and it is the surety company that takes on the responsibility and risk of a properly completed contract on behalf of the contractor. **Typical Credit Factors:** Surety companies generally consider a firm to be at risk if they been in business for less than three years. They must have a good credit history and a track record of job completion in their specialty. The contractor will have a difficult time qualifying for bonds if their balance sheet shows poor cash flow, low equity, is highly leveraged or they have been unprofitable.

COSTS: The charge or cost to a contractor for a surety bond is called the "bond premium." Generally, there is no charge for the bid bond. The performance and payment bond premium is typically 1% to 2.5% of the contract amount. Again, the surety bond premium is a fee for the surety's underwriting services and does not cover potential losses. The rates vary depending on the size and type of contract and the contractor's bonding capacity as determined by the underwriting.

In addition to the premium charged by the surety, SBA charges the contractor \$6 per thousand dollars of the contract amount (or .6%) for the guarantee. SBA also charges the surety 20% of the premium that the surety collects from the contractor. All of the contractor and surety fees collected by SBA are deposited in the SBG Revolving Fund at the US Department of Treasury, which is used to pay claims.

NEED MORE INFORMATION?

Mr. James Pipper
US Small Business Administration, Arizona Office
2828 North Central Ave #800, Phoenix, AZ 85004
PHONE: (602) 745-7200
EMAIL: Arizona@sba.gov

SURETY BOND CONTACT:

Mr. Tom Eubank
US Small Business Administration
1200 6th Avenue #1700, Seattle, WA 98101-1128
PHONE: (206) 553-0961
EMAIL: <mailto:pam.swilling@sba.gov>

Participating Agents in Arizona – Partial List

There are many agents in Arizona for you to choose from. These are some of our more active agents in the SBGP program.

GREAT AMERICAN INSURNACE GROUP
Sharon McGuinness, Bond Manager
15150 N. Hayden Road, Ste 103, Scottsdale, AZ 85260
PHONE: (480) 367-6803 FAX: (480) 367-6805
EMAIL: smcguinness@gaic.com

CONTRACTORS BONDING AND INSURANCE COMPANY (CBIC)
Mark Hewitt, Branch Manager; Theresa Smith, Underwriter
2999 North 44th Street, Suite #450, Phoenix, Arizona 85018
PHONE: 1-800-866-2242 (FX: 1-800-284-2770
EMAIL: MarkH@cbic.com

HCC SURETY GROUP
8751 North 51st Avenue, Suite #121, Glendale, Arizona 85302
PHONE: (623) 931-3911 FAX: (623) 931-3910
EMAIL: None

MINARD AMES INSURNACE GROUP
Dan Walsh, Surety Bonds
4130 E. Van Buren, Phoenix, Arizona 85008
PHONE: (602) 393-3438
EMAIL: dwalsh@minardames.com

WORLDWIDE INSURANCE SPECIALIST
Steve Kolb, Commercial Agent/Underwriter
2424 W. Missouri Ave., Phoenix, AZ 85015
PHONE: (602) 749.0702 FAX: (602) 674-8235
EMAIL: steve@wwisinc.com

UNION LIFE & CASUALTY
Roman Ruiz, Bond Manager
5225 N. Central Avenue, Suite #110, Phoenix, Arizona 85012
PHONE: (602) 277-5555 FAX: (602) 265-9763
EMAIL: rruiz@ulcinsurance.com

BONDWRITER SOUTHWEST
David Sparks, Owner/Manager Katherine Stanton, Agent
4041 N. Central Ave. Ste.890, Phoenix, Arizona 85012
PHONE: (602) 230.1835
EMAIL: contact@bondwriter.com

ICW Group
Sam Derby, Manager
4745 N. Seventh St., Suite 430, Phoenix, AZ 85014
PHONE: (602) 287-8888 FAX: (602) 287-8800
EMAIL: sderby@icwgroup.com